



Friday 16th May 2008

**DAILY COMPANY NOTE — DCC** See page 2 for full details

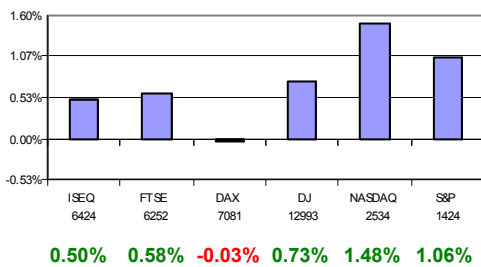
**Daily Market Comment**

**Yesterday's Summary** : With the both European GDP and European inflation coming in better than expected, and a large amount of Irish company specific news, the ISEQ finished in positive territory yesterday, climbing 0.50% at 6,424.17. After guiding that operating profit for this year will be at the top end of analysts' expectations, Paddy Power was among the best performers of the day, gaining 3.5% to €24.25. Kingspan soared 5.4% to €7.85 as the group reassured investors that it is well positioned to advantage of any upturn in economic activity. AIB added 0.8% to €13.71 as the group reaffirmed its earnings guidance.

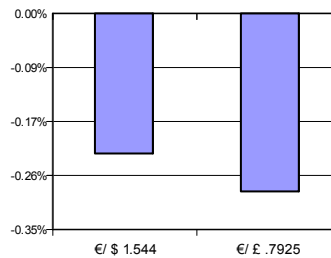
**Overnight News** : In Japan, the Nikkei closed down 0.2% at 14,219.48, after investors locked in profit following the market's strong opening gains and the benchmark index's previous rally to a four-month high. In China, the benchmark Shanghai Composite Index closed down 0.36 percent at 3,624.23, led by power firms and property stocks.

**Breaking News** : British Airways has announced net income for the year ended March 31st of £680m, up from £290m a year earlier and compared with analyst expectations of £654m. In its AGM statement yesterday McInerney holdings said that sales are running at 17% less than this time last year and that sales are taking longer to complete due to lengthened timescales for people seeking to secure mortgage finance. Furthermore, the group said that since their preliminary results announcement in early March, market conditions in the UK have weakened. Carlsberg has announced a \$6.3bn rights issue as the drinks giant seeks to repay some of their debt taken on for last months joint purchase of Scottish & Newcastle with Heineken. Ladbrokes have said that gross winnings has risen by 16% in 2008 for the first four months and climbed 34% including "high rollers" at the telephone unit.

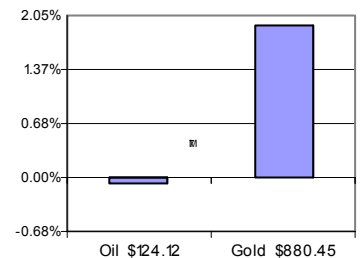
**Equity Indices change on day**



**Currency daily % change**



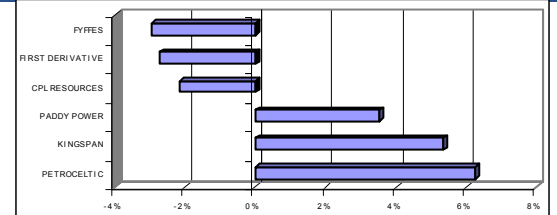
**Oil/Gold daily % change**



**News**

- "AIB keeps growth target despite fall in earnings"-AIB-(The Irish Times)
- "Paddy Power says operating profit to reach €82m in 2008"-(The Irish Times)
- "AerLingus expects operating losses despite revenue boost"-(I.I)
- "Kingspan eyes dip in profits as Irish, UK demand falls"-(I.I)
- "McInerney warns shareholders of impending half-year loss"-(I.E)

**ISEQ Performers/Losers 15/05/08**



**Market Themes and Movers**

**Oil & Gold Rises** : Crude oil prices rose in New York amid speculation that China will need to increase diesel purchases for its power plants. The 0.5% of China's total generating capacity that still remains shut after the tragic earthquake on May 12, is threatens to strain limited distillate supplies. Crude oil for June delivery rose as much as 0.8% to \$125.11 a barrel in after hours trading on the New York Mercantile Exchange. Meanwhile, gold rose today as the dollar fell versus the yen and the euro on yesterday's weak US weekly jobless claims and US manufacturing data.

**US, UK & European Interest Rates** : This week the US Federal Reserve, the Bank of England and the European Central Bank have all suggested to financial markets that future rate cuts in the short term are not a likely outcome. After slashing borrowing costs seven times since September to 2% from 3.25%, the Fed chairman has hinted that rising inflation is causing serious concerns and that risk to inflation is definitely on the upside. In fact, some traders are increasing their bets the Fed will increase interest rates later this year. Market futures are now signaling a 22% probability the Fed will raise interest rates to 2.25% by September 2008. In the European case, with yesterday's GDP data indicating that the eurozone is growing at a faster pace than expected, the pressure on the ECB to cut rates will ease.



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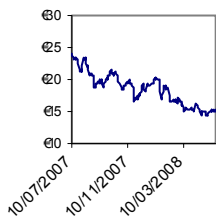
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# DCC

**David Dunk**
**BUY**
**Target**
**€19**
**Previous** (16/11/07)

**€22**
**Current**
**€15.05**
**ISEQ**
**Diversified Operations**
**Company Profile**

The Group's principal activities are carried out through its Energy, Sercom, Food & Beverage, Healthcare and Environmental divisions. Energy markets and sells liquefied petroleum gas and oil products for commercial/ industrial, transport and domestic use. Brands include Emo Oil, Ergas and Flogas. Sercom markets and sells a range of IT and entertainment products.

**Statistics**
**Price Performance**


**Fundamental view :** DCC will release its preliminary results for the 12 months ended 31<sup>st</sup> March on Monday 19<sup>th</sup> of May. The stock has declined 22% for the year so far and is down 40% from its 52 week high. DCC disposed of Manor Park during the year for a total consideration of €191 million. This has enabled the company to reduce debt significantly as well as facilitate strategic acquisitions. We expect DCC's energy distribution business to post EBIT of €74.7m for the year an increase of 25%, boosted by the purchase of CPL Petroleum. DCC's strategy of consolidation in the fragmented oil distribution business has been successful so far, a trend we expect to continue. Following on from the results posted by Game last month we are satisfied that DCC Sercom's results will be strong. Despite a general slowdown in consumer retail, trends for computer game retail remain positive. We forecast an EBIT of €37.2m for Sercom an increase of 21%. We forecast an EBIT of €13.7m for DCC's environmental business, an increase of 40%. The long term growth prospects for this business are enormous given changing attitudes towards recycling and the environment. Given the demographics of Western populations, the long term outlook for DCC's Healthcare division is excellent although cutbacks in HSE spending may impact near term performance. We are forecasting an EBIT of €22.7m for the healthcare division in-line with prior year EBIT. DCC also has a food and beverage business, which is expected to post EBIT of €14.1m, a decline of 5%

**Next catalyst :** DCC's preliminary results on Monday are likely to be a significant catalyst for the company. We believe current prices offer an attractive buying opportunity. DCC has a diverse range of businesses with defensive characteristics as well as a strong balance sheet. Translation of sterling profits remains an issue for the company with DCC guiding for a loss of €3 million for the year ending March 2008. However we feel that this has been fully priced in by the market. We are expecting an EPS for the year ending 31<sup>st</sup> March 2008 of €1.59. This represents underlying EPS growth of 11% over previous year EPS of €1.435 once the contribution of Manor Park is removed. The average trailing P/E for DCC over the last five years is 13.3x. Given the current outlook for DCC, we feel a multiple of 12x trailing earnings is achievable. This provides the basis for our current price target of €19. Additionally, there is potential for buybacks and a progressive dividend given the underleveraged balance sheet and strong cash flow nature of the business.

**Chart view: DCC**

Support Primary: €14.75  
 Support Secondary: €14.05  
 Resistance Primary: €15.60  
 Resistance Secondary: €17.50

Medium-term chart outlook remains negative with downtrend firmly intact. A break of trend resistance at €17.50 is needed to alter this outlook. In the short-term the first upside obstacle is €15.60 and a move above here will have the stock targeting €16.42. However, the risks remain tilted to the downside and key supports come in at €14.75 and €14.05.

**Revenue by Division**


- Energy 36%
- Sercom 20%
- Other Activities 15%
- Healthcare 14%
- Food 9%
- Environmental 6%

Major Shareholders	%	Peer Group Multiples.			
		Company name	P/E 08	P/E 09	EPS Growth 08-09
Fidelity Mgt. Research	14.02%	<b>DCC</b>	9.5	9.1	4.47%
Bank of Ireland Asset Mgt.	8.93%	Indus	9.0	8.7	6.77%
Aim Trimark Invnt.	7.78%	Wendel	8.0	7.4	18.18%
Schroder Invnt. Mgt.	4.41%				
Axa Rosenberg Invnt. Mgt.	3.21%				
Shares Outstanding	80.82m				

Share Data	Financial Data	2007	2008	2009e
Current Price (€)	Revenue (€m)	4,046	5,103	5,539
Mkt Cap (€m)	PBT (€m)	162	147	159
Reuters	EPS (€)	1.43	1.59	1.66
Bloomberg	P/E(x)	10.52	9.47	9.07
Sector	DPS (€)	0.49	0.55	0.61
Chairman	Dividend Yield	3.26%	3.65%	4.05%
CFO				
Website				





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